Federation of Indian Airlines
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MOST URGENT

16 July, 2021

To,
The Chairperson,
Airports Economic Regulatory Authority of India,
AERA Building, Administrative Complex,
Safdarjung Airport,
New Delhi – 110003

Kind Attention: Shri. B.S. Bhullar, IAS

Sub: **In the matter of determination of aeronautical tariffs in respect of Chandigarh International Airport Limited, Chandigarh for the Second Control Period (1 April, 2021 to 31 March, 2026)**

Ref: *1. AERA Consultation Paper No. 09/2021-22 dated 18 June, 2021; and*
2. AERA stakeholder consultation (virtual) meeting dated 6 July, 2021.

Dear Sir,

We, Federation of Indian Airlines (**FIA**), write in response to the Consultation paper No. 09/2021-22 dated 18 June, 2021 issued by the Airports Economic Regulatory Authority of India (**AERA**) in the matter of determination of aeronautical tariffs in respect of Chandigarh International Airport Limited (**CHIAL**) at Chandigarh International Airport, Chandigarh (**IXC**) for the Second Control Period (1 April, 2021 to 31 March, 2026) (‘**Consultation Paper**’).

At the outset, FIA would like to express our sincere gratitude to AERA for inviting stakeholder comments on the Consultation Paper, and further acknowledging the impact of COVID-19 on the aviation sector.

While FIA appreciates that CHIAL has limited its increase in the aeronautical tariff to ‘User Development Fee’ (**UDF**) w.e.f 1 April, 2022, however, FIA humbly requests AERA to not implement any increase in the aeronautical tariff in the Second Control Period and defer increase in the same to the subsequent control period, given the scenario described below.

Sir, as you would be aware, that due to the impact of the second (major) wave of COVID-19 as experienced across India since March, 2021 the airlines have again started witnessing a sharp decline in the demand for air travel and this being coupled with the government restrictions on fare & capacity on inter/intra State travel as applicable (‘**Government Restrictions**’) is preventing airlines from generating adequate passenger revenue to sustain.

In such a scenario, the airlines continue to incur high operational costs on account of higher airport charges and taxes, and this has aggravated the imbalance in the cash flow position and is adversely impacting the gradual financial recovery of the airlines.

At present, the airline operations are barely at 35% of the pre COVID-19 capacity and the passenger traffic at around 30% of pre COVID - 19 levels. As per industry estimates issued by IATA and CAPA, airlines are likely to undergo losses of USD 8.0 billion for the FY 2020-21 and 2021-22 and it may take 2-3 years for airline operations to reach the pre COVID-19 level, in terms of number of flights and passengers. Also, with limited financial support from the Government, airlines are constrained to implement severe cost control measures to sustain its operations.

In the given circumstances, it is imperative that AERA does not take any steps, including by way of increase in aeronautical tariff, during the Second Control Period, which precipitates any further adverse financial impact on the airlines.

Without prejudice to the above, and as desired by AERA, please find attached FIA's recommendations/ comments on the Consultation Paper, under **Annex – A**. We hope that your good self will positively consider such recommendations/ comments as it will help in achieving the affordability and sustainability of the airline, which is also outlined as a key objective in the National Civil Aviation Policy, 2016.

Thanking you,

Yours sincerely,

For and on behalf of **Federation of Indian Airlines,**

UJJWAL DEY
Associate Director

<u>Copy to:</u>
Director (P&S Tariff), Airports Economic Regulatory Authority of India (**AERA**)

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Annex – A

Comments on AERA CP - Determination of aeronautical tariffs in respect of Chandigarh International Airport Limited for the Second Control Period (1 April, 2021 to 31 March, 2026)

S. No.	Para	Particulars	Comments/Submission
1.	2.4.13 – 2.4.21	True Up of RAB - Capital Expenditure/Assets Allocation	While FIA appreciates that AERA has sought justification from CHIAL in cases where the incurred amount on capital expenditure is greater than that approved in 'First Control Period', AERA is requested to undertake an independent study for efficient capital expenditure, more particularly, in view of the following remark by AERA: *'In certain cases, the Authority notes that CHIAL needs to make more realistic estimates in case of projections since the variance between projections and actuals are significant. The Authority expects CHIAL to ensure that this is appropriately considered in the future control periods. '* Similarly, an independent study for determination for asset allocation should be also undertaken by expert body/agencies. Such independent studies to be conducted by AERA will be in accordance with the Airports Economic Regulatory Authority of India Act, 2008 (**AERA Act**), and will ensure that realistic estimates for projections are applied, which may result in lower Aggregate Revenue Requirement (ARR) and tariff. Further, AERA should ensure that no deviations of capex/costs are approved than the rates prescribed under the AERA Normative Order No. 07/2016-17 "*In the matter of normative approach to building blocks in economic regulation of major airports – capital costs reg.*" dated 13.06.2016.
2.	2.5	True Up of Depreciation	FIA submits that AERA should consider the useful life of Building including Terminal Building as sixty (60) years as envisaged in AERA Order No. 35/2017-18 read with Schedule II of Companies Act 2013, as applicable, and revise the amount of depreciation accordingly. It is pertinent to note that useful life of assets at various international airports like London Heathrow, Sydney airport and Amsterdam airport indicated that terminal buildings have useful life of as long as sixty (60) years and aprons have it for as long as ninety-nine (99) years.

			FIA submits that the useful life of terminal building for Kannur and Cochin airports have been considered sixty (60) years by AERA. Thus, AERA should prescribe sixty (60) years for the building including Terminal Building as is practiced by some of the developed aviation ecosystem.
3.	2.9.5	True Up of Operating Expenditure	AERA is requested to exclude costs pertaining to Corporate Social Responsibility (**CSR**) from 'Aeronautical Expenditure'. This will be in line with the similar treatment to CSR expenditure, given to CIAL at Cochin International Airport. Further, AERA may review the Operating Expenses based on an independent study for allocation of assets and efficient operating expenditure.
4.	2.10	True up of Non - Aeronautical Revenue	FIA requests AERA to conduct an independent study on the Non-Aeronautical Revenues, in accordance with the Airports Economic Regulatory Authority of India Act, 2008, as amended (**AERA Act**).
5.	5	Traffic	While FIA appreciates that AERA has considered industry inputs/reports on traffic from agencies like IATA and ICAO, FIA requests AERA to conduct an independent study for traffic assessment, in accordance with the AERA Act.
6.	4.2	Analysis of RAB & Capital Expenditure	FIA appreciates that considering the reduced traffic owing to COVID-19, AERA has rationalised the capital expenditure and excluded certain proposed additions to RAB. FIA reiterates its request for independent study of asset allocation and efficient capital expenditure, as mentioned at Sr. No. 1 above.
7.	4.4	Depreciation	Same as our comment at Sr. No. 2 above.
8.	5	Return on Land Cost	FIA recommends that no returns may be provided for investment in land by CHIAL, in view of the fact that value of land does not depreciate over time.
9.	6	Fair Rate of Return	FIA submits that fixed/ assured return favours the Airport Operators, and creates an imbalance against the airline, which are already suffering from huge losses and bear the adverse financial impact through higher tariffs. Further, due to such fixed / assured returns, service providers like CHIAL have no incentive to look for the productivity improvement or ways of increasing efficiencies or take steps to drastically reduce costs as they are fully covered for all the costs plus their returns. Such a scenario may result in inefficiencies and higher costs, which are ultimately borne by the airlines.

			In the present scenario any assured return on investment (i.e., return on investment after the income tax), in excess of three (3) %, i.e., being at par with bank fixed deposits, will be onerous for the airlines. In view of the above, AERA is requested to immediately review FRoR by capping the returns to a maximum of three (3)%.
10.	7	Operating Expenses	Same as our comment at Sr. No. 3 above.
11.	8	Non-Aeronautical Revenue	FIA submits AERA to conduct an independent study on the Non-Aeronautical Revenues, in accordance with AERA Act. Without prejudice to the above, FIA submits that: 1. Increase in non-aeronautical revenue is a function of passenger traffic growth, inflationary increase and real increase/escalations in contract rates. AERA to ensure no adjustments are proposed to non-aeronautical revenue which is not dependent on traffic but are derived from agreements with concessionaires; and 2. 'Royalty' is in the nature of market access fee, charged by the services providers under various headings. These charges are passed on to the airlines by the service providers. The rates of royalty at some of the airports are as high as forty six (46)%. It may be pertinent to note that market access fee by any name or description is not practiced in most of the global economies, including European Union, Australia etc. In view of the above, we urge AERA to abolish such royalty which may be included in any of the cost items - aeronautical and non -aeronautical.
12.	1.2.2	Methodology for Tariff Determination – Hybrid Till Vs. Single Till	FIA submits that as per para 1.2.2 of the Consultation Paper, it is stated that the AERA shall determine tariffs for IXC using the Hybrid Till model. It is to be noted that FIA from time to time has advocated the application of a Single Till model across the airports in India. FIA submits that AERA should adopt Single Till basis the following legal framework: In the Single Till Order, AERA has strongly made a case in favor of the determination of tariff on the basis of 'Single Till'. It is noteworthy that the AERA has, inter alia, in its Single Till Order:

			(i) Comprehensively evaluated the economic model and realities of the airport – both capital and revenue elements. (ii) Taken into account the legislative intent behind Section 13(1)(a)(v) of the AERA Act. (iii) Concluded that the Single Till is the most appropriate for the economic regulation of major airports in India. (iv) The criteria for determining tariff after taking into account standards followed by several international airports (United Kingdom, Australia, Ireland and South Africa) and prescribed by ICAO. AERA in its AERA Guidelines (Clause 4.3) has followed the Single Till approach while laying down the procedure for determination of ARR for Regulated Services. The fundamental reasoning behind 'Single Till' approach is that if the consumers/passengers are offered cheaper airfares on account of lower airport charges, the volume of passengers is bound to increase leading to more footfall and probability of higher non-aeronautical revenue. The benefit of such non aeronautical revenue should be passed on to consumers/passengers and that can be assured only by way of lower aeronautical charges. It is a productive chain reaction which needs to be taken into account by the AERA.
13.	13.	Aeronautical Tariff	(i) Overall Tariff/ARR AERA is requested to review the suggestions/comments on the regulatory building blocks as mentioned under Annex – A, which is likely to reduce the ARR (including shortfall) of CHIAL. This will further ensure the lowering of tariffs including UDF, which will be beneficial to passengers and airlines. (ii) Parking Charges (a) In the present Consultation Paper, it is observed that 'Parking Charges' are bifurcated for 'First Two hours after free parking period' and 'Beyond Four Hours', which was not prescribed in the earlier AERA order No. 17/2016-17 dated 27 March, 2017, as extended, for the First Control Period for IXC (**FCP Order**).

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			AERA/CHIAL to kindly clarify the basis of such bifurcation in 'Parking Charges', in the present Consultation Paper. (b) In the FCP Order, a 50% rebate in parking charges between 2200 HRS to 0600 HRS was provided. However, the same is not prescribed in the present Consultation Paper. AERA/CHIAL is requested to kindly clarify. (iii) BRS/CUTE Charges Whether CHIAL will raise the invoice for BRS/Cute charges instead of SITA in the Second Control Period? AERA/CHIAL to kindly clarify. (iv) Charges for Domestic cargo handling (Ref. Para IV.5 on Page 102 of the Consultation Paper) In respect of airlines undertaking cargo self-handling in accordance with applicable law/regulations, no charges should be billed to such airlines. (For e.g., as IndiGo is undertaking services of loading/unloading of cargo through its wholly owned subsidiary 'Agile Airport Services Private Limited' at IXC, no charges should be billed to IndiGo).